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SUBJECT: YEMENI TELECOMMUNICATIONS SECTOR: LOWEST
PENETRATION IN REGION

REF: STATE 27310

¶1. SUMMARY. The Yemeni telecommunications sector still suffers from the lowest penetration in the region. The lack of both mobile and internet coverage is largely due to government monopoly, policies that emphasize government revenue over encouraging investment, and an outdated infrastructure. According to private mobile providers, the ROYG continues to challenge expansion of the mobile network via a draft telecommunications law, while retaining control of fixed lines and internet services. Even as mobile services expand ever-so-slowly, internet coverage will remain limited due to restricted connectivity to the global infrastructure. END SUMMARY.

TELECOMMUNICATIONS SECTOR

¶2. Yemen still has one of the least developed telecommunications markets in the Middle East. According to Yaseen Mahmoud Ali, Deputy Minister at the Ministry of Telecommunications and Information Technology, there are approximately one million fixed lines and six million mobile users in a country with over 22 million inhabitants. (Note: The actual number of mobile users is much fewer as many users have multiple cell phones, which operate on different networks. End Note.) Imad Hamed, CEO of Y Mobile, told EconOff on May 5 that Yemen has the lowest penetration rate of mobile technology in the region, estimating it at 9 percent. Ali gave a much higher number on May 3, estimating that the mobile network has penetrated 31.8 percent of the population*-up from only 0.4 percent six years ago (2003). Internet penetration is, comparatively, even lower. According to Dr. Ali Naji Nosary, Director General of the Public Telecommunications Corporation (PTC), there are only 30,000 internet ports in private residences and 100,000 in internet cafes. The PTC estimates the number of internet users at one million (5 percent of the population). The World Bank, however, estimates the subscriber base at only 1.4 percent of the population.

¶3. The lack of mobile and internet penetration is largely due to an inefficient regulatory framework in the telecommunications sector. The PTC,s Nosary told EconOff on April 26 that although the PTC was established in 1982, the first mobile providers did not enter the market until 2000, and the ROYG did not offer internet services until 2001. Since then, the ROYG (via the PTC) has remained completely in control of internet service in Yemen. In 2004, the ROYG offered mobile internet and, in 2005, introduced broadband IDSL (digital subscriber line). The government has been unwilling to grant tenders and maintains a monopoly on the internet market, in spite of interest from investors.

MOBILE PHONE MARKET

¶4. The mobile phone market in Yemen is relatively diversified. Yemen is currently served by four cell phone companies: Yemen Mobile, MTN, Sabafon, and Y Mobile. A government-owned and operated company, Yemen Mobile, uses CDMA (code division multiple access) technology, a first-generation cell phone technology. The private companies--MTN, Sabafon, and Y Mobile--use GSM (global system for mobile communications) technology, a second-generation mobile technology. Y Mobile,s Hamed told EconOff on May 5 that due to governmental restrictions, Yemen still does not have UMD (ultra mobile device) technology, a third-generation mobile technology that offers more services including internet access. All four mobile providers plan to increase their coverage in Yemen. Sadek Mousleh, CEO of Yemen Mobile, told EconOff on April 28 that his company plans to be in 95 new areas in 2009, 40 percent in rural areas and 60 percent in urban locations. Currently, the mobile network is available in 70 percent of inhabited areas.

MOBILE PROVIDERS OPPOSE DRAFT TELECOM LAW

¶5. Ostensibly an attempt to clarify the relationship between the service providers and the regulatory body, a draft telecom law proposes to place a number of fees on private mobile phone companies, including universal access (2 percent of revenue) and revenue sharing (10-15 percent). The Ministry of Telecommunications says it has consulted the International Telecommunications Union (ITU) as well as the World Bank and a Jordanian expert for help in drafting the

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law. All three private mobile companies oppose the draft law. Raed Ahmed, CEO of MTN, told EconOff on May 3 that the price of revenue sharing will change his company,s business model enough that it will have to raise prices and fire employees. Similarly, Sabafon CEO Hamid al-Ahmar said to EconOff on May 4, "Sabafon has joined with MTN in opposing the draft telecommunication legislation*an absurd power grab that combines the ROYG,s worst security instincts with its worst economic instincts." Hamed of Y Mobile, the newest and smallest mobile provider in the market, told EconOff on May 5 that his company objects to the draft law because it does not provide mobile companies any additional services, but takes a large swath of revenue. If passed, the draft law will also allow the ROYG unconditional access to eavesdropping, according to MTN,s Ahmed. It will also disallow mobile providers from disconnecting lines unless they go to court--even if the subscriber does not pay.

CHALLENGES TO INCREASING TELECOM PENETRATION

¶6. Currently, the ROYG has a monopoly on providing both fixed lines (through PTC) and internet services (through Yemen Net). While the PTC has plans to increase the number of internet lines in 2009 to 150,000 (from 35,000), the ROYG remains unwilling to open the market for either fixed lines or internet services to private sector competition. The PTC plan to expand the number of internet lines will target municipalities and secondary towns, but not rural areas. The PTC,s Nosary told EconOff on April 26 that the PTC has plans to institute an e-Caravan, a car equipped with internet, which would provide additional, if intermittent, coverage to rural areas. Ultimately, broadband internet is limited as Yemen has a restricted amount of international fiber optic cable and relies on connectivity to the internet via satellite.

¶7. Further, the ROYG restricts the ability of mobile providers to expand. Ali told EconOff on May 3 that the Ministry of Telecommunications would like to issue new licenses and allow private companies to bring in the next generation of mobile services, but it is unlikely to happen

until 2010. While relations between mobile providers are competitive, they work together in expanding into rural areas, which often requires negotiating with tribes and sharing infrastructure and maintenance costs. In rural areas, high rental prices and intermittent power remain major issues, according to Yemen Mobile,s Mousleh.

COMMENT

¶8. While mobile services are expanding slowly into rural areas, internet usage remains limited, even by developing world standards, across the country. In addition to an outdated infrastructure and inefficient regulatory framework, potential internet providers must face the challenges of covering remote areas while attracting a population with low income and high illiteracy. Yemen has also maximized its broadband connectivity to the global infrastructure. These challenges will effectively limit the Yemeni population,s access to internet for the foreseeable future. END COMMENT.
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